



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

To open, right click on "Select a bill", select Worksheet Object/Edit. To exit, click outside the spreadsheet.

| | | | |
|---------------|--------|---------------|---|
| Bill # | SB0082 | Title: | Require PERS new hires to be in DC plan |
|---------------|--------|---------------|---|

| | | | |
|-------------------------|-------------|----------------|---------------|
| Primary Sponsor: | Lewis, Dave | Status: | As Introduced |
|-------------------------|-------------|----------------|---------------|

Retirement Systems Affected:

| | | | |
|-----------------------------------|--|---|---------------------------------------|
| <input type="checkbox"/> Teachers | <input checked="" type="checkbox"/> Public Employees | <input type="checkbox"/> Highway Patrol | <input type="checkbox"/> Police |
| <input type="checkbox"/> Sheriffs | <input type="checkbox"/> Firefighters | <input type="checkbox"/> Volunteer Firefighters | <input type="checkbox"/> Game Wardens |
| | | | <input type="checkbox"/> Judges |

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
- ☒ Has the cost of this legislation been calculated by the system's actuary?
- ☐ Does this legislation include full funding for any benefit revisions?

To open the Fiscal Summary spreadsheet, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside of the spreadsheet.

| | July 1, 2012 Current System | July 1, 2012 With Changes | Increase/ (Decrease) |
|--|--------------------------------|------------------------------|-------------------------|
| Present Value of Actuarial Accrued Liability | \$5,661,281 | \$5,661,281 | \$0 |
| Present Value of Actuarial Assets | \$3,816,920 | \$3,816,920 | \$0 |
| Unfunded Actuarial Accrued Liability (UAAL) | \$1,844,361 | \$1,844,361 | \$0 |
| Amortization Period (years) of UAAL | dna | dna | 0.00 |
| Change in normal costs | 11.80% | 11.80% | 0.00% |

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | July 1, 2012 | July 1, 2013 | July 1, 2014 | July 1, 2015 | July 1, 2016 |
| Employee Contr Rate 7/1/2011 | 7.90% | 7.90% | 7.90% | 7.90% | 7.90% |
| Employer Contribution Rate CP&Univ | 7.17% | 7.17% | 7.17% | 7.17% | 7.17% |
| Employer Contribution Rate LocGov | 7.07% | 7.07% | 7.07% | 7.07% | 7.07% |
| State Contribution Rate LocGov | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% |
| Employer Contribution Rate SD | 6.80% | 6.80% | 6.80% | 6.80% | 6.80% |
| State Contribution Rate SD | 0.37% | 0.37% | 0.37% | 0.37% | 0.37% |
| TOTAL Contribution Rate | 15.07% | 15.07% | 15.07% | 15.07% | 15.07% |

FISCAL SUMMARY

To open the Fiscal Summary spreadsheet, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|--|--------------------|--------------------|-----------------------|-----------------------|
| | Difference | Difference | Difference | Difference |
| Expenditures: | | | | |
| General Fund | \$221,552 | \$176,584 | \$21,626,582 | \$21,806,456 |
| State Special Revenue | \$200,095 | \$159,481 | \$19,532,010 | \$19,694,463 |
| Federal Special Revenue | \$136,207 | \$108,561 | \$13,295,683 | \$13,406,267 |
| Proprietary | \$79,359 | \$63,251 | \$7,746,528 | \$7,810,958 |
| Other- University GF | \$114,130 | \$90,965 | \$11,140,637 | \$11,233,296 |
| Other- University Other | \$116,855 | \$93,137 | \$11,406,695 | \$11,501,568 |
| Other - Local Govt | \$555,333 | \$442,617 | \$54,208,232 | \$54,659,097 |
| Other - School Dist | \$192,469 | \$153,403 | \$18,787,633 | \$18,943,895 |
| Revenue: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Federal Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Other- Pension | \$1,616,000 | \$1,287,999 | \$157,744,000 | \$159,056,000 |
| Other- Pension PCR/disability | \$15,000,000 | \$21,000,000 | \$28,000,000 | \$34,000,000 |
| Other- Pension DC Forfeitures | (\$269,400) | (\$269,400) | (\$269,400) | (\$269,400) |
| Net Impact-General Fund Balance | (\$221,552) | (\$176,584) | (\$21,626,582) | (\$21,806,456) |

Description of fiscal impact: SB82 closes the current PERS-DB plan and requires that all PERS new hires be members of the DC plan. It eliminates the Plan Choice Rate (PCR) of 2.64% (2.37% +.27%). It requires the following allocation of employer contributions to be made to the PCR or the DC Disability fund: employers contribute 0.27% for members with over 5 years of service and employers contribute 6.33% for members with less than 5 years of service.. The elimination of the forfeitures will require plan membership fees to increase, thus providing less money to all member accounts. The closing of the DB plan will be a very costly proposal since liabilities do not go away until the last DB member or contingent annuitant dies.

FISCAL ANALYSIS

Assumptions:

1. The presentation of the actuarial results for the Unfunded Liabilities is as if the bill had been effective as of June 30, 2012.
2. For purposes of the projections, the actuary assumed an effective date of July 1, 2013.
3. The number of active employees eligible for either PERS-DB or PERS-DC will remain constant from the June 30, 2012 actuarial valuation.
4. Assumes that transfers of existing non-vested members will be minimal and will not have a material impact on our results.
5. Employees hired after the effective date would no longer be eligible for the PERS defined benefit plan (PERS-DB), but would be eligible to become members of the PERS defined contribution plan (PERS-DC) unless optional per 19-3-412.
6. Non-vested members in PERS-DB would be eligible to elect and transfer to PERS-DC.
7. All current members of PERS-DC would become immediately vested in the employer contribution account.
8. Projections assume that future employer contributions will be equal to normal cost plus the amortization of the UAL according to sections 4 and 5 of the bill.
9. The current contribution rates for members of the PERS-DC include a contribution of 0.3% of compensation to the disability plan trust fund.
10. The current 5 year vesting for the PERS-DC is eliminated and members would be immediately vested.
11. The employer contribution account in the PERS-DC plan is eliminated.
12. The contribution rate for employees, employers and the state will remain the same; **all** excess costs (normal cost plus the unfunded actuarial liability above the statutory contribution rate) will be borne by the Governor's budget.
13. Allocations of the employer contribution in PERS-DC have been modified.
14. The sunset provisions related to the DB employer contribution of 0.27% of payroll are eliminated and this contribution amount has become permanent.
15. The plan choice contribution rate of 2.37% of payroll is eliminated. However, there will be a plan choice contribution on what will become a larger payroll in the PERS-DC plan. The allocation of employer contributions to the Plan Choice Rate (PCR) and disability fund will equal to 0.27% of payroll for those members who are vested and 6.33% for those members that have less than 5 years of service.
16. Additional contributions are allowed beyond the statutory contribution rate. This would require additional IT costs for programming a new file layout to accept the additional contributions.
17. If the governor funds the annual required contribution, the employer rate for the DB plan would be expected to increase to 41.41% by 2030; if funding is not provided, the annual required contribution rate would be projected to increase to 200% by 2030.
18. DC plan forfeitures are eliminated, therefore, requiring increased fees for participants and providing less money to member accounts. Over the last 10 years the annual average amount of forfeitures has been \$269,400.
19. Since the changes in benefits affect future employees only, there would be no effect in the normal cost rates or in the actuarial liability as of June 30, 2012.
20. There would be a change in the UAL contribution rate due to the closing of the plan to new employees.

21. The current amortization rate is based upon an “open” 30-year amortization of the UAL as a level percentage of future payroll assuming future annual payroll increases of 4%. By “open” amortization, it is meant that at each valuation date, a new 30-year period is established such that, in theory, the UAL would never be fully amortized. With the closing of the plan, there will no longer be an increasing payroll for this amortization, but rather a decreasing payroll. Therefore, the amortization method has been changed to a level dollar amortization.
22. Due to the closing of the plan, it would no longer be reasonable to use an open amortization method. Therefore, the amortization method has been changed to a fixed 30-year period starting on the effective date.
23. The total payroll will increase at the assumed rate of 4.0%.
24. All actuarial assumptions will be realized, including the investment return assumption of 7.75%.
25. The fiscal impact presented in the report assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
26. There have been no adjustments for actuarial gains and losses or for changes in membership or financial data since the last valuation as of June 30, 2012.
27. The provisions would become effective upon receiving a favorable determination letter from the Internal Revenue Service.
28. There is a requirement to include in the budget those amounts that will amortize the PERS-DB plan’s unfunded actuarial liability (UAL).

To open the spreadsheet below, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside of the spreadsheet.

| | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>Difference</u> | <u>Difference</u> | <u>Difference</u> | <u>Difference</u> |
| <u>Fiscal Impact:</u> | | | | |
| FTE | 0.00 | 0.00 | 0.00 | 0.00 |
| <u>Expenditures:</u> | | | | |
| Personal Services | \$0 | \$0 | \$0 | \$0 |
| Operating Expenses | \$0 | \$0 | \$0 | \$0 |
| Equipment | \$0 | \$0 | \$0 | \$0 |
| Benefits | \$0 | \$0 | \$0 | \$0 |
| Transfers | \$0 | \$0 | \$0 | \$0 |
| TOTAL Expenditures | \$0 | \$0 | \$0 | \$0 |

Funding of Expenditures:

| | | | | |
|------------------------------|--------------------|--------------------|----------------------|----------------------|
| General Fund | \$221,552 | \$176,584 | \$21,626,582 | \$21,806,456 |
| State Special Revenue | \$200,095 | \$159,481 | \$19,532,010 | \$19,694,463 |
| Federal Special Revenue | \$136,207 | \$108,561 | \$13,295,683 | \$13,406,267 |
| Proprietary | \$79,359 | \$63,251 | \$7,746,528 | \$7,810,958 |
| Other- University GF | \$114,130 | \$90,965 | \$11,140,637 | \$11,233,296 |
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| Other - Local Govt | \$555,333 | \$442,617 | \$54,208,232 | \$54,659,097 |
| Other - School Dist | \$192,469 | \$153,403 | \$18,787,633 | \$18,943,895 |
| TOTAL Funding of Exp. | \$1,616,000 | \$1,287,999 | \$157,744,000 | \$159,056,000 |

Revenues:

| | | | | |
|------------------------------|---------------------|---------------------|----------------------|----------------------|
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| Federal Special Revenue (03) | \$0 | \$0 | \$0 | \$0 |
| Proprietary | \$0 | \$0 | \$0 | \$0 |
| Other - Pensions | \$1,616,000 | \$1,287,999 | \$157,744,000 | \$159,056,000 |
| Other - Pension PCR/disabili | \$15,000,000 | \$21,000,000 | \$28,000,000 | \$34,000,000 |
| Other - DC Forfeitures | -\$269,400 | -\$269,400 | -\$269,400 | -\$269,400 |
| TOTAL Revenues | \$16,346,600 | \$22,018,599 | \$185,474,600 | \$192,786,600 |

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

| | | | | |
|------------------------------|------------|------------|---------------|---------------|
| General Fund (01) | -\$221,552 | -\$176,584 | -\$21,626,582 | -\$21,806,456 |
| State Special Revenue (02) | -\$200,095 | -\$159,481 | -\$19,532,010 | -\$19,694,463 |
| Federal Special Revenue (03) | -\$136,207 | -\$108,561 | -\$13,295,683 | -\$13,406,267 |
| Proprietary | -\$79,359 | -\$63,251 | -\$7,746,528 | -\$7,810,958 |

Effect on Local Governments:

1.

Long-Term Impacts:

1. The liability for the current DB members does not go away and, in fact, the costs increase until the time that no benefits are due to retirees or their contingent annuitants.

2.

Technical Notes:

1. The actuary assumes the whole additional funding amount will be funded by the governor's budget.
2. It is unclear what would be included in the governor's budget and what would be the responsibility of the employers.
3. The funding source for the plan changes is not identified.
4. Education will have to be provided for over 11,500 active, non-vested members. No funding is identified and it cannot be funded by the current plan.
5. A person in the PERS-DC plan with less than 5 years of service will see a decrease in the amount of employer contributions going to their member account. The amount decreases 3.69%, from 4.19% to 0.5%.
6. The demographic composition of the disability plan will likely change over time thus changing the amount that would be sufficient to fund the disability trust.
7. If the plan does not obtain the funding assumed by the actuary, the DB plan will be insolvent by 2036 as a result of this bill.
8. The current plan choice rate unfunded actuarial liability (PCR-UAL) is \$11,053,147.
9. "Additional contributions" that are allowed in the bill are undefined.
10. An election is allowed for "certain members" – non-vested members. This may be an equity issue.
11. There are technical drafting concerns that need to be addressed in order for the retirement plan to maintain its "qualified plan" status as set by the Internal Revenue Code.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date

Fiscal note prepared by:

NOTE: Board's response to OBPP

Agency:

6104

Phone number:

444-5457